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## THE TARIFF AND OUR FOREIGN TRADE IN ELECTRICAL APPARATUS

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There are so many factors entering into the problem of the development of our foreign trade that the student is apt to be confused and discouraged by the complexity, and conclude that attempts at analysis are useless. Continued investigation, however, will prove that the main determinants are comparatively few in number. Some of them involve the people of the country, some have to do only with the country's resources or the facilities for rendering those resources available. Some are under the control of the governments, some act independently of them. Let us review these elements, keeping in mind their especial relation to our position in the United States:

The chief factors affecting the peoples of the countries trading with each other are, the friendly spirit of co-operation and peaceful rivalry, community of racial stock, and the large international use of capital, the flow of resources from one part of the world where there is abundance of capital to another where it is needed for the development of industrial opportunities.

In the possession of all these elements, which help to form a basis for the development of foreign trade, the United States is endowed far beyond any other of the present-day nations of the globe. Our whole history since our independence has been bound up with our ambition to win our way among the nations—to develop our peculiar national interests and make of ourselves the foremost example of what democracy stands for. Our whole fiscal policy has been dominated by the desire to make the American able to compete on equal terms with the citizens of other countries—to overcome any economic handicap under which we might be working due to the undeveloped condition of our resources or due to the different standards of life obtaining in the various commercial nations.

America again stands pre-eminent in possessing the most cos-  
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mopolitan population of any country on the face of the globe. Every important commercial nation of the world has contributed numbers of its sons to the upbuilding of the great American commonwealth. This fact binds us more closely to the other nations, not only in an ethnic way, but through community of interests and ideals. These foreign contingents within our borders are a potent influence to make our political relations peaceful and to encourage the formation of close commercial ties between their mother countries and that of their adoption. The most powerful influence of this sort in our own public life is, of course, our relation to Great Britain, bound as we are to her through our history, through our common origin and our common tongue. These factors alone, independent of our economic interests, would furnish a powerful incentive predisposing the two great branches of the Anglo-Saxon race to the cultivation of commercial relations. Though in a less degree our connection with other nations, and our community of interests due to that connection, are just as clearly demonstrable. Our relations to the German nations are rendered friendly not only by the close connection of the Anglo-Saxon with all Teutons by race, but because we have within our borders literally millions of German citizens who have come to America to make it their home. Since 1820 there have come to the United States from Germany over 5,000,000 immigrants, and the number of native Germans at present residing in the United States is nearly 3,000,000. These, with their descendants, clinging to the customs, and to some extent the language of their fatherland, are a silent but potent factor in working for the maintenance of amity between Germany and the United States. The lesser countries are bound to us in a similar way. Holland, with 100,000 native Dutchmen living in the United States; Scandinavia, with 1,000,000, and Italy, with an American "colony" of 500,000 in 1900, are all bound to us in thought and in economic interests by this joint ownership of population.

How close a connection there is indeed between our foreign immigration and our foreign trade may be illustrated by the fact that our foreign trade in the case of Italy has expanded from about \$40,000,000 in 1896 to nearly \$90,000,000 for 1906, an increase coming at the same time as a remarkably rapid growth in the immigrant Italian population. Similarly our Russian immigrant population in 1900 was nearly half a million. Since then, due to the

internal troubles of the home country, that number has been greatly increased. Contemporaneously the values of our exports and imports in trade with that nation have grown. During the last decade our export trade to Russia has more than doubled, and the value of our imports has more than quadrupled.

These examples must suffice. They serve to illustrate the fact that community of race carries with it community of commercial interests. If this be so, here again the United States has a better basis for the development of her foreign commerce than any other country of the world.

Hardly less marked is our advantage as regards the third factor—the use of foreign capital in the United States and the use of United States capital abroad. Naturally, the latter is more noticeable in the undeveloped countries, especially Spanish-America, than in those countries of Europe where capital is already abundant and where the industrial opportunities do not offer such large returns. The investments of American capital in Mexico are now estimated at almost \$800,000,000 American gold. Our consul general in Cuba estimates the American capital in that country between \$100,000,000 and \$200,000,000, while in Porto Rico American capital finances practically the whole industrial organization of the territory. In the great countries of Europe local capital has generally been employed, but in many great interests it is American inventions and American skill in manufacture and management which have furnished the basis for the development of great industrial establishments. There is no room for doubt that the presence in the countries abroad of American industries and capital and the presence in America of even greater amounts of foreign capital, have operated to strengthen the commercial relations between the different communities.

In all three of these ways, friendly spirit, close racial connections and the international use of capital, the United States stands then, in an exceptional position. To an extent equaled by few, if any, of the nations of the world, our position gives us the right to count on these factors to aid us in the development of our foreign commerce.

The second general consideration, determining to what extent any given nation may hope to develop foreign trade, is its resources, including not only what substances it can produce for market

abroad, but the facilities supplied for transportation of the products within the country itself and the industrious character of its population.

On this subject little need be said, not because it lacks in importance, but because the character of the resources of the United States is so well known. Of material resources we have such wealth that we have become the world's greatest producers of all the important articles used in manufacture, such as cotton, iron, copper, timber, coal and foodstuffs. We have the greatest system of railways to be found in any country in the world with which to carry the manufactured products or raw materials to whatever border may claim them for beginning their voyage to foreign markets. The ability of the American workman also needs no eulogy. In all the elements of this second class of qualifications for foreign commerce the United States stands well equipped.

We now turn to a third class—one in which the government may do much to aid the development of foreign trade or by neglect of action may allow great harm to be done. There are two chief factors involved here, both of which are engaging the attention of the American people to-day. These are the merchant marine and the tariff.

It may be well before taking up these topics in particular to say a word in recognition of what the government is already doing in the creation of conditions favorably for foreign commerce. It has aided foreign commerce by maintaining a great statistical department—the Department of Commerce and Labor, it records the trade movements to and from the United States and other commercial countries of the world, it sends consuls abroad to report upon the markets existing there for American goods and to protect, as far as possible, our as yet too undeveloped commercial interests abroad; but all this is not enough. Our government has not taken the steps which more than all else would enable us to compete on an equal basis with other nations for the commerce of the world. It has not eliminated disadvantages under which our merchant marine must work, and therefore we cannot reach the foreign markets on such terms as we must to compete with our rivals. Secondly, our government has not overcome adverse fiscal legislation in the countries abroad, legislation which places us at a disadvantage

because of high tariff duties, from which other nations, because of special arrangements, are exempt.

These are business questions much more than true political questions—a fact our representatives in Congress have not clearly realized up to the present time. These problems of the expansion of our export trade in manufactured products should be taken out of the field of partisan politics and decided on their merits as the true economic questions which they are. From this viewpoint then—as a practical business man connected with large manufacturing interests, I approach the question of what ought to be done by this country to expand its export trade.

In my mind, the very first thing to be done is to get better steamship communication between this country and foreign lands, especially South America and the Orient. These are the regions in which the greatest economic development of the next generation is bound to come, and once any nation has gained exclusive or preponderant control of the routes of trade leading to them, it will be hard for any subsequent competitor to dislodge her from that position. Our commerce with the Orient has only begun, when we consider the development it should have due to our advantageous geographical position. Our trade with South America also is as yet in its infancy. It is the duty of our government to see that its growth be not checked, but that it be given every opportunity to develop as it should. In spite of our apparent advantage in South American commerce, furnishing as we do the chief market for the greatest South American product, coffee, and an important outlet for others of her exports, American commercial relations with the countries of that continent have languished. To illustrate this, I may say that it frequently takes longer to send a letter to Brazil direct than it does to send it via England. Such disadvantages in trade as this shows operate to exclude us from a market which under all normal conditions should be ours. That the government should help to assure us the preponderance in South American trade that our position would justify seems almost axiomatic.

If Congress is not in favor of ship subsidies, it ought at least to encourage American shipping by permitting Americans to go into the open market and purchase their ships abroad, in order to allow them to compete with other countries. In other words, treat ships like merchandise. To the business man the method by which

our access to the markets of the south is gained is of relative unimportance. That access should be gotten is clear, and as the industrial development of South America takes place it will become increasingly important.

Heretofore our foreign competitors in the field now especially under consideration, Spanish-America and the Orient, have had the advantage of American exporters, because they have been willing to accept terms of payment extending over a long period of time, while, as a rule, American manufacturers insist on full payment before the goods leave the country. Until money becomes cheaper in this country it will be difficult for us to compete with Europeans in this respect. There are, however, certain lines of goods in which a profitable permanent foreign trade may be built up in spite of this disadvantage under which, for the present at least, we must be content to labor.

The second modification of our present commercial system which is essential for the development of our foreign trade is the modification of our present tariff. Sufficient attention has not been paid to the maximum and minimum tariff placed on our goods by foreign countries. It was in order to overcome the onerous maximum tariff that President McKinley recommended reciprocity treaties. At present in countries like France and Germany American goods pay sometimes fifty per cent more duty than goods coming from other countries, simply because the Americans do not extend reciprocal favors. The policy of Mr. McKinley was to expand our trade through the exchange of such favors on a reciprocal basis as would allow us to dispose of surplus in certain lines without injury to American manufacturing industries. Now that the treaties which Mr. McKinley negotiated have failed, we ought not to be surprised that leading foreign nations have put in effect their maximum tariffs against many of our goods. They look upon the situation as one-sided, and they naturally are bound to favor other nations which are willing to exchange with them on a reciprocal basis and with whom they have treaties guaranteeing such favored treatment.

The manufacturer in this country well knows that he cannot expect to build up a trade in a community which he openly offends by his daily action. He well knows that there are many cases where he may have a legal right to follow a certain course of action, but

where to do so would, in fact, do an injustice to the second party, and would, in the long run, bring great harm to his own prosperity by turning the individual offended against him. The same is true in international affairs. The United States stands much in the position of the obstinate merchant. We have the undoubted right, barring treaty agreements, to enforce against foreign countries a tariff as arbitrary as we may please. Our position may be such that on certain lines we may be able to force the hands of other countries, but such action can but bring us the ill will of the country against which we adopt our arbitrary attitude. Such countries will inevitably prefer to turn, whenever possible, to other nations willing to settle their trade relations on the basis of mutual concession rather than to the one which uses its economic advantages to mulct those dependent upon it. Thus the immediate advantage may ultimately cause serious loss of trade. The position of the United States when insisting upon its "no compromise" tariff is just this. It is my opinion that the United States must come, sooner or later, to the adoption of some form of tariff approaching the maximum-minimum plan now in general use in continental Europe. A single basis tariff was eminently right ten or fifteen years ago, when nations generally used that method of levying duties, but we have passed from a world of single basis tariffs to one which is now largely a world of maximum-minimum tariffs. Disregarding the general development, we have clung to our old-fashioned tariff instrument, and are thus left with very little opportunity to return good treatment from other countries, and almost no opportunity to defend ourselves against bad treatment by them.

Under our present tariff arrangements every country in the world knows that it can put up its tariff against our imports, discriminating against them as compared to the same products from other countries, and yet it will suffer absolutely no disadvantage from such action. Every country knows, further, that if it grants to the United States especial favors in its tariff arrangements it can expect no benefit from such action, because we have but a single tariff rate and must charge that country which favors us just as high a rate as the one which discriminates against us by arbitrarily high rates of duty. The result is that, on the one hand, we are helpless against unfriendly legislation and, on the other, unable to return friendly tariff provisions.

What advantages we would reap from a modern tariff system are perhaps best shown by considering the disadvantages under which we now labor. There are certain classes of goods, like agricultural implements, which can be manufactured much cheaper in this country than anywhere else in the world on account of the great quantities turned out, which are exported even now for cash, simply because they can be sold at a lower price by us than by Europeans, and the purchaser has a chance to resell at a profit on account of the low original cost. In such trade as this, if favorable conditions were established for foreign trade, our natural advantages would be such that we could in a short time assume the leading role. At present, however, the European countries levy high duties against such goods, which materially restrict the field in which they might be sold.

The handicap under which the American exporter works I can present most clearly by showing the effect of foreign tariff legislation upon the trade in electrical apparatus—the branch of export trade with which I am most familiar.

Before the Europeans had learned to manufacture tramway motors there was a great outlet for this class of apparatus in European markets. The time has come, however, when it is difficult to compete with the French, Germans and Austrians for electrical apparatus to be used in their own countries. This is due to two causes. In the first place, in these continental countries, the population is so dense and the standard of life so much lower than in America that the labor cost in producing apparatus is necessarily lower than in the United States. This fact, however, would not of itself overbalance the advantages we have in other lines—notably superior skill. Added to this, we have the discrimination of the foreign tariff, which our government has as yet made no effort to break down or modify. This has been so adjusted as to gradually encroach on our trade in many countries, in some instances practically bringing our exclusion. In Great Britain, which is a free trade country, the Americans stand a better chance, but even there it is very difficult to compete with the Germans, who have made such a special study of the export business. They have formed certain pools, consisting of the leading manufacturers, who maintain a certain price for home consumption and a much lower price for export business.

To give you an illustration of the way Germans conduct their export business, I may state that while I was in France, about four years ago, I knew of the purchase from the Germans of sheet steel for the manufacture of electrical apparatus at a price delivered in France, duty and freight paid, which was much lower than the Germans could buy the same sheet steel for in Germany. The duty on this sheet steel in France was not less than ten or fifteen francs per 100 kilos. Against these methods for encouraging export it is, of course, hard for the average American manufacturer to compete.

A word may be inserted here concerning the justice of adopting such methods of competition—the fixing of one price for the home market and another for export trade. The cry is sometimes raised that it is unfair to sell for less money abroad than at home. This complaint is really without good foundation. Any goods which are manufactured for export do not interfere with home competition. By being able to export a certain quantity of manufactured products in times of business depression, the fixed general expenses of manufacturers are greatly reduced, and permit a reduction of prices for home consumption. The export business should be looked upon by American manufacturers, as long as we are as prosperous as we are now, and as long as the demand exceeds the supply, as a kind of a friction load to be used to raise the low points of the "sine" curve, representing the ups and downs of business activity. Although some seeming sacrifices have to be made in good times, these sacrifices will be more than made up in bad times, and the home consumer will profit in the periods of stringency because of the export business.

Owing to the cheap European labor and the adverse tariff regulations a once flourishing market for American electrical apparatus has disappeared, in spite of other very obvious advantages in manufacture present in the United States. Due to this fact, our best market has now been transferred to some of the less developed countries. Our greatest demands for manufactured electrical apparatus now come from Mexico, Japan, Brazil and the west coast of South America. The great predominance of British interests in the Argentine is the reason why there is not so much demand in that country for electrical apparatus of American manufacture as there is for that of British make.

That American manufacturers should be thus excluded from

the market of the most important European countries means, of course, a direct loss to American labor as well as to American capital. It may be instructive to note in this connection what has been the outcome in European countries which have adopted the policy of mutual concession in determining their trade relations. It need hardly be said that this policy has had the effect of stimulating trade among themselves as against American goods.

If we should take France, for instance, which applies its minimum tariff to Germany, Switzerland, Great Britain and other countries, we would find that it is almost impossible to compete with these countries on an equal footing, because we are taxed with the maximum tariff, and in consequence the export trade of the countries mentioned above with France is greatly stimulated, and we suffer to a corresponding extent. Could we be freed from this discrimination through the agency of a tariff agreement which would put us in, say the French market, on the same basis as Germany and Switzerland, our export trade would again be able to seek the European market with greater success than at present, even if, on account of local competition, it should prove impossible to attain our former preponderance.

I have shown that the United States possesses a basis for the development of foreign trade present in few, if any, of the other nations of the world. In view of the fact that if normal grounds of competition were established a great increase in our foreign trade would ensue, it seems to me that the establishment of such conditions is a problem that should engage the attention of every person interested in the continued prosperity of our nation. These are, let me repeat, business questions, and should be viewed and decided from the business standpoint. We cannot afford to neglect so important a factor in our national prosperity as the development of our foreign trade. In my judgment, as a practical man, and not as a theorist, we ought to make in this country a careful study of all our trade relations with the nations with whom we deal, or in which we hope some time to get a market, to the end that the constantly changing tariff conditions among them may be met by such changes on our part as shall allow reciprocal relations of some sort to operate to the advantage of all parties.

If it were possible for the House of Representatives and the United States Senate to appoint committees consisting of such able

men as Secretary Root, and to send these committees on a tour of inspection and personal observation to the various countries, I am sure that any expense connected with such trips would be fully repaid by the benefits which would follow. A clearer understanding of our needs would be arrived at and tariff changes would be urged and adopted and an increased export trade would be the result. The trouble with our Congress is that there are very few men who understand foreign conditions as well as does Secretary Root.

Let me illustrate the advantages that would arise from such a sane study of tariff questions as I have suggested by the experience of one of our greatest commercial rivals. Germany, before she adopted her new tariff, studied the whole foreign trade situation very carefully by a most competent commission. She examined her local manufacturers as to cost of production, and as to what they could do in foreign markets if certain arrangements could be made. She sent emissaries to different parts of the world, particularly to our own country, where they made most careful observations of manufacture, shipment, collection, etc., to see how they might themselves benefit by a study of our excellent methods, not only in getting their goods into the United States, but in competition with us in other parts of the world where we have to put our surplus. Having thus fortified themselves with a fund of information on the subject, the representatives of the German Government were able to proceed intelligently to the formulation of an efficient tariff measure, such as the one now in force in the empire. The result of this careful study of foreign business preceding the enactment of her tariff is that today Germany is our chief competitor, and the one that is most to be feared.

We might well profit by this example. It would be of great advantage to us if we adopted some of Germany's thoroughness in the study of so important a subject which has a bearing upon every manufacturer who produces a surplus, or who will produce a surplus if home consumption declines.